KPMG

LOS ANGELES OPERA COMPANY

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

LOS ANGELES OPERA COMPANY

Table of Contents

KPMG

KPMG LLP
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Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Directors
Los Angeles Opera Company:

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles Opera Company (the Opera), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Opera's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Opera's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Los Angeles Opera Company as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Los Angeles, California
December 20, 2018

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LOS ANGELES OPERA COMPANY

Statements of Financial Position

June 30, 2018 and 2017

Assets		2018	2017
Cash and cash equivalents	$	465,058	740,572
Accounts receivable		177,440	194,901
Contributions receivable (note 5)		11,126,356	21,015,542
Contributions receivable from related parties (note 5)		19,529,844	21,588,354
Prepaid production costs		457,255	429,882
Prepaid expenses, deposits, and other assets		1,169,546	1,102,752
Property, plant, and equipment, net (note 6)		1,149,663	925,419
Beneficial interest in perpetual trust (note 2)		15,620,111	14,699,909
Beneficial interest in remainder trust (note 2)		19,170,643	—
Restricted investments (note 4)		23,111,523	19,190,924
	$	91,977,439	79,888,255
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	4,940,926	4,821,692
Deferred ticket sales		5,993,852	6,707,735
Loans payable (note 7)		6,250,000	7,000,000
Loans payable to related parties (note 7)		4,116,667	5,966,667
		21,301,445	24,496,094
Commitments and contingencies (note 8)			
Net assets:			
Unrestricted		(9,553,894)	(9,841,766)
Temporarily restricted (note 9)		22,923,489	30,766,240
Permanently restricted (notes 9 and 10)		57,306,399	34,467,687
Total net assets		70,675,994	55,392,161
	$	91,977,439	79,888,255

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Activities

Years ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenue and support:								
Earned revenue:								
Ticket sales and fees – opera season	$ 12,528,841	—	—	12,528,841	11,530,126	—	—	11,530,126
Ticket sales and fees – recitals and other performances	1,620,389	—	—	1,620,389	1,069,967	—	—	1,069,967
Other earned revenue	420,831	—	—	420,831	456,152	—	—	456,152
Total earned revenue	14,570,061	—	—	14,570,061	13,056,245	—	—	13,056,245
Support:								
Foundations, corporations, and individuals	13,513,469	2,772,957	19,275,644	35,562,070	11,341,164	10,388,904	187,600	21,917,668
Government grants	191,450	1,171,743	—	1,363,193	1,194,824	1,178,112	—	2,372,936
Donated materials and services	583,671	—	—	583,671	650,060	—	—	650,060
Endowment distribution	1,756,554	—	—	1,756,554	1,240,899	—	—	1,240,899
Change in value of beneficial interest in perpetual trust	—	—	920,202	920,202	—	—	1,123,841	1,123,841
Change in discount to recognize pledges at present value	—	864,024	142,866	1,006,890	—	3,845,214	196,418	4,041,632
Net support from foundations, corporations, individuals, and governments	16,045,144	4,808,724	20,338,712	41,192,580	14,426,947	15,412,230	1,507,859	31,347,036
Special events:								
Revenue	2,644,791	372,500	—	3,017,291	750,328	298,713	—	1,049,041
Less costs of direct benefits to donors	(586,878)	—	—	(586,878)	(605,839)	—	—	(605,839)
Net assets released from restriction	476,894	(476,894)	—	—	411,481	(411,481)	—	—
Net revenue from special events	2,534,807	(104,394)	—	2,430,413	555,970	(112,768)	—	443,202
Total support	18,579,951	4,704,330	20,338,712	43,622,993	14,982,917	15,299,462	1,507,859	31,790,238
Net assets released from restrictions								
Released for purpose and time restrictions	10,634,902	(10,634,902)	—	—	22,522,414	(17,522,414)	(5,000,000)	—
Temporary release for short-term use (note 9)	—	(2,500,000)	2,500,000	—	—	2,500,000	(2,500,000)	—
Total net assets released from restrictions	10,634,902	(13,134,902)	2,500,000	—	22,522,414	(15,022,414)	(7,500,000)	—
Total revenue and support	43,784,914	(8,430,572)	22,838,712	58,193,054	50,561,576	277,048	(5,992,141)	44,846,483
Expenses:								
Production, performance, and outreach	32,211,745	—	—	32,211,745	31,719,824	—	—	31,719,824
Marketing and public relations	4,411,849	—	—	4,411,849	4,557,959	—	—	4,557,959
Management and general	3,416,339	—	—	3,416,339	3,446,067	—	—	3,446,067
Fundraising	3,460,165	—	—	3,460,165	3,022,647	—	—	3,022,647
Total expenses	43,500,098	—	—	43,500,098	42,746,497	—	—	42,746,497
Change in net assets from operating activities	284,816	(8,430,572)	22,838,712	14,692,956	7,815,079	277,048	(5,992,141)	2,099,986
Nonoperating items:								
Endowment investment income, net of distributions	41,930	587,821	—	629,751	727,392	1,322,993	—	2,050,385
Other investment income	7,768	—	—	7,768	7,574	—	—	7,574
Expense from voluntary prepayment of advance distributions (note 2(l))	—	—	—	—	(2,749,458)	—	—	(2,749,458)
Uncollectible pledges receivable	(46,642)	—	—	(46,642)	(1,460,739)	—	—	(1,460,739)
Change in net assets	287,872	(7,842,751)	22,838,712	15,283,833	4,339,848	1,600,041	(5,992,141)	(52,252)
Net assets at the beginning of the year	(9,841,766)	30,766,240	34,467,687	55,392,161	(14,181,614)	29,166,199	40,459,828	55,444,413
Net assets at the end of the year	$ (9,553,894)	22,923,489	57,306,399	70,675,994	(9,841,766)	30,766,240	34,467,687	55,392,161

See accompanying notes to financial statements.

LOS ANGELES OPERA COMPANY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 15,283,833	(52,252)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization of property, plant, and equipment	305,244	242,035
Change in value of beneficial interest in perpetual trust	(702,562)	(1,009,289)
Unrealized and realized gain on investments, net	(2,001,106)	(2,542,504)
Contributions restricted for endowment	(19,275,644)	(5,176,090)
Contributions of beneficial interest in perpetual trust	(574,317)	(419,162)
Uncollectible contributions receivable	46,642	1,460,739
Changes in operating assets and liabilities:		
Accounts receivable	17,461	108,820
Contributions receivable	11,801,055	(287,444)
Prepaid production costs	(27,373)	362,569
Prepaid expenses and deposits	(66,794)	(45,131)
Accounts payable and accrued liabilities	119,234	(418,521)
Deferred ticket sales	(713,883)	636,567
Net cash provided by (used in) operating activities	4,211,790	(7,139,663)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(529,488)	(367,847)
Purchases of investments	(2,500,000)	—
Net cash used in investing activities	(3,029,488)	(367,847)
Cash flows from financing activities:		
Contributions restricted for permanent investment:		
Through the Opera's endowment	785,507	3,036,922
Through the beneficial interest	356,677	304,610
Proceeds from loans payable	32,610,000	14,968,000
Repayments of loans payable	(35,210,000)	(10,894,522)
Net cash (used in) provided by financing activities	(1,457,816)	7,415,010
Net decrease in cash and cash equivalents	(275,514)	(92,500)
Cash and cash equivalents at the beginning of the year	740,572	833,072
Cash and cash equivalents at the end of the year	$ 465,058	740,572
Supplemental disclosures of cash flow information:		
Interest paid during the year	$ (460,714)	(581,587)
Loan forgiveness to satisfy pledge receivables	—	(612,031)

See accompanying notes to financial statements.

(1) Organization

The Los Angeles Opera Company (the Opera) is a nonprofit, tax-exempt entity organized to produce world class opera that preserves, promotes, and advances the art form while embodying the diversity, pioneering spirit, and artistic sensibility unique to Los Angeles. The Opera is a resident company of the Performing Arts Center of Los Angeles County.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis. Net assets of the Opera and changes therein are classified and reported as follows:

- **Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Opera
- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations or law that may or will be met by either the actions of the Opera and/or the passage of time; as the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions that are received and expended in the same reporting period are reported as a component of unrestricted net assets in the accompanying financial statements.
- **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity, the earnings from which are available for the Opera’s use upon board appropriation, unless otherwise stipulated by donors or by law.

(b) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset, which is three years for computers and software, five years for office equipment, furniture, and vehicles, seven years for technical equipment, and the lesser of seven years or the lease term for leasehold improvements.

(c) Ticket Sales Revenue

Ticket sales are recognized as revenue when the related performance is given. Tickets sold in advance of the applicable performance are recorded as deferred ticket sales until the date of performance.

(d) Contributed Goods and Services

The value of significant contributed goods is reflected as contributions in the financial statements at the fair value of such goods at the date of contribution.

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

For the fiscal years ended June 30, 2018 and 2017, the value of significant contributed goods and legal services was $583,671 and $650,060, respectively.

(e) Contributions Receivable

Contributions receivable are reported at the present value of expected future cash flows using fair value discount rates ranging from 0.09% to 5.40% for the years ended June 30, 2018 and 2017. Life expectancies for gifts due upon a donor's death are reevaluated annually using the 2012 Individual Annuity Reserving table. Contributions receivable are recorded as unrestricted contributions revenue if there are circumstances surrounding the promise that indicate that the donor intended it for current use; otherwise, contribution receivables are reported as temporarily or permanently restricted net assets.

(f) Expense Recognition

Opera production costs are expensed in the fiscal year that the opera is first performed. Opera production costs incurred in advance of the applicable fiscal year are recorded as prepaid production costs.

(g) Income Taxes

The Opera is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Opera is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision was recorded at June 30, 2017. An income tax provision for unrelated business income has been recorded at June 30, 2018. In the opinion of management, the provision is not material to the financial statements taken as a whole.

(h) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and money market accounts at a financial institution.

(i) Concentration of Risks

The Opera is exposed to credit loss for the amount of cash in excess of the federally insured limit of $250,000. At June 30, 2018 and 2017, the Opera had cash in banks of $643,662 and $1,476,953, respectively, in excess of Federal Deposit Insurance Corporation insurance limits.

(j) Restricted Investments

Restricted investments at June 30, 2018 and 2017, consist of funds designated by donors for investment in perpetuity, the earnings from which are available for the Opera's use upon board appropriation, unless otherwise stipulated by donors or by law. At June 30, 2018 and 2017, substantially all investments of the Opera are managed in a unitized pool of investments of the Music Center Foundation (the Foundation), a not-for-profit organization that raises and holds funds on behalf of the Opera and other operating companies of the Performing Arts Center of Los Angeles. These investments are reported at net asset value as a practical expedient to determining fair value and are classified as restricted investments in the accompanying statements of financial position.

(Continued)

(k) Beneficial Interest in Perpetual Trust

The Opera is the income beneficiary of several perpetual trusts held by the Foundation. The Opera has the right to receive the income earned on the trust assets in perpetuity but will never receive the assets held in the trust. The beneficial interest is comprised of gifts held in perpetuity in which the Opera is the named beneficiary therefore, this trust is recorded on the Opera's financial statements at the fair value of the underlying assets. The fair value of the beneficial interest is remeasured annually. Subsequent changes in the value of the underlying assets have been recorded in the accompanying statements of activities as a component of permanently restricted net assets as a change in value of Beneficial Interest in perpetual trust. In accordance with the requirements of FASB ASC Topic 820, *Fair Value Measurements*, the beneficial interest is valued using unobservable inputs and therefore is categorized as Level 3 in the three-tier fair value hierarchy described in note 3.

The Board of Directors of the Foundation determines the distribution pursuant to its distribution policy. Distributions are accrued based on a percentage of the fund's average fair value calculated on a 12-quarter rolling average fair value ending the preceding fiscal year.

Included in the beneficial interest are pledge receivables restricted for endowment totaling $6,058,700 and $5,944,408 as of June 30, 2018 and 2017, respectively.

The following table includes a reconciliation of the beginning and ending fund balances of the Beneficial Interest reported at fair value using unobservable inputs categorized as level 3, as of June 30, 2018 and 2017:

		2018	2017
Beginning balance at June 30	$	14,699,909	13,576,068
Total gains or losses (realized and unrealized)		702,562	1,009,289
Purchases		574,317	419,162
Issuances and settlements		(356,677)	(304,610)
Ending balance at June 30	$	15,620,111	14,699,909
Total gains or losses for the year included in income attributable to the change in unrealized gains and losses relating to assets held at June 30	$	345,885	704,679

(l) Beneficial Interest in Remainder Trust

During fiscal 2018, the Opera was notified that they are the remainder beneficiary of a trust that includes a mobile home park, a partial interest in an apartment building and various investment accounts. The Beneficial Interest in Remainder Trust is recorded on the Opera's financial statements at the fair value of the trust assets reduced by the liabilities of the trust. The fair value of the Beneficial Interest is re-measured annually. Subsequent changes in the value of the underlying assets will be recorded in the accompanying statements of activities as a component of permanently restricted net assets as a change in value of Beneficial Interest in remainder trust. In accordance with the requirements of FASB ASC Topic 820, Fair Value Measurements, the Beneficial Interest is valued using unobservable inputs and therefore is categorized as Level 3 in the three-tier fair value hierarchy described in note 3.

The following table includes a reconciliation of the beginning and ending fund balances of the Beneficial Interest reported at fair value using unobservable inputs categorized as level 3, as of June 30, 2018 and 2017:

		2018	2017
Beginning balance at June 30	$	—	—
Total gains or losses (realized and unrealized)		—	—
Contribution		19,170,643	—
Issuances and settlements		—	—
Ending balance at June 30	$	19,170,643	—
Total gains or losses for the year included in income attributable to the change in unrealized gains or losses relating to assets held at June 30	$	—	—

(m) Music Center Foundation Distributions

The Music Center Foundation distributes funds to the Opera annually. Such distributions comprise earnings on the Opera's restricted investments, beneficial interest, and from the Music Center Foundation's general fund investments. The distributions from the Music Center Foundation's investments are included in endowment distributions in the statement of activities.

In prior years, the Opera received advance distributions from the Foundation's general fund and from future earnings on the Opera's beneficial interest held by the Foundation. In the years of the advance distributions, the Opera had reported the portion of such distributions related to the Foundation's general fund as contribution income. The portion related to the Opera's beneficial interest was reported as a component of accounts payable. Annual discretionary distributions from the Foundation were reduced by amounts consistent with an agreed upon schedule. In the event that no discretionary distributions were made by the Foundation, no restoration of such advance distributions would be required under the agreement.

As this arrangement significantly decreased annual discretionary distributions from the Foundation, the Opera determined it would be in its best interest to restore the amounts previously received. On November 18, 2016, the donor of a permanently restricted endowment gift of $5,000,000 instructed the Opera to release the gift and accumulated earnings from restriction in order to refund the outstanding balance of the advance distributions. At that time, the outstanding balance of advance distributions from the Music Center Foundation totaled $3,436,822, of which $687,364 was previously reported as a component of accounts payable. As a result of this transaction, the Opera realized a onetime expense of $2,749,458. This expense represents the amount of accumulated refunds that had not fully restored the advances reported as income in the past. At June 30, 2017, the advance distributions had been fully restored.

(Continued)

In accordance with the donor's instructions, additional funds from the release of the $5,000,000 endowment gift fulfilled another obligation with the Foundation. Reference footnote 7(b)(iii) for additional discussion.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(o) Expense Allocation

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by the Opera's management.

(p) New Accounting Standards

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in ASC Topic 958, *Not-for-Profit Entities*. Provisions of this update include: the reduction in the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; the requirement to present expenses by their functional and their natural classifications in one location in the financial statements; the requirement to present quantitative and qualitative information about management of liquid recourses and availability of financial assets to meet cash needs within one year of the balance sheet date; and the retention of the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. This update is effective for the Opera for the fiscal year ending June 30, 2019. The Opera is currently evaluating the effects the adoption of the statement will have on the financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions* made, which amends the reporting requirements for contributions in ASC Topic 958, *Not-for-Profit Entities*. The amendments in this update will impact how an entity evaluates whether transactions should be accounted for as contributions within the scope of Topic 958, or as exchange transactions and determining whether a contribution is conditional. This update is effective for the Opera for the fiscal year ending June 30, 2020. The Opera is currently evaluating the effects the adoption of the statement will have on the financial statements.

(3) Fair Value Measurements

The Opera follows the provisions of FASB ASC Topic 820, *Fair Value Measurements* (ASC Topic 820). ASC Topic 820 establishes a common definition of fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles and expands disclosures about fair value measurements. ASC Topic 820 defines fair value as the price that would be received to sell an asset or the price paid to transfer the liability in an orderly transaction between market participants at the measurement date.

In addition to defining fair value, ASC Topic 820 establishes a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

Level 1: Valuation is based on observable inputs using quoted market prices in active markets for identical assets and liabilities.

Level 2: Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not as active, or valuation methods using models, interest rates, and yield curves as observable inputs.

Level 3: Valuation is based on unobservable inputs that are corroborated by little or no market activity. Therefore, valuation reflects the organization's own assessment about assumptions that market participants would use in pricing the asset and liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Opera's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The Opera follows the measurement provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* and ASU No. 2015-05, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent.)* to value the Opera's restricted investments with the Music Center Foundation. ASU No. 2009-12 allows for the fair value of certain investments that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds to be reported using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to ASC Topic 820.

(4) Investments

The Opera's permanently restricted investments are managed in the Music Center Foundation's unitized investment pool and are subject to the Opera's investment strategy and targets set by the Music Center Foundation. The Opera's investment strategy currently does not allow investment of its permanently restricted funds in nonmarketable securities (i.e., venture capital). The Opera has a designee who sits on the Foundation's investment committee, to provide oversight and communication to the Opera's Board and Budget and Finance committee.

The following table summarizes the underlying investments held in the unitized investment pool with the Foundation at June 30, 2018 and 2017:

		2018	2017
Cash and cash equivalents	$	340,674	572,197
Intermediate-term bond fund		1,054,686	967,773
Large and mid cap equities		5,732,891	4,914,514
Small cap equities		2,840,727	1,972,295
International equity		3,002,371	2,596,243
Emerging market equities		3,046,394	2,325,785
Equity hedge funds		3,187,956	2,529,166
Absolute return funds		3,649,505	3,075,554
Commodities		256,319	237,397
Restricted investments with Music Center Foundation	$	23,111,523	19,190,924

The restricted investments reported at net asset value totaling $23,111,523 and $19,190,924 at June 30, 2018 and 2017, respectively, are redeemable with the fund at net asset value under the original terms of the investment agreement with the Foundation. The investment agreement subjects the investments to the Foundation's respective partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Opera's interests in the funds.

The following table summarizes the unfunded commitments, redemptions frequency, and notice period for Opera's investments, which are valued using net asset value as a practical expedient to estimating fair value in accordance with ASU No. 2009-12 as of June 30, 2018:

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Restricted investments with Music Center Foundation	$	23,111,523	—	Daily to 3 Years	—
Total investments	$	23,111,523			

The Opera did not have any direct investment holdings as of June 30, 2018 or June 30, 2017.

(5) Contributions Receivable

Contributions receivable, including contributions receivable from the Opera's board members, at June 30, 2018 and 2017, are expected to be received as follows:

		2018	2017
Within one year	$	14,479,934	21,469,889
Two to five years		8,310,199	7,747,874
Thereafter		14,615,605	21,145,587
		37,405,738	50,363,350
Less discount to reflect contributions receivable at present value		(6,749,538)	(7,759,454)
Total	$	30,656,200	42,603,896
Contributions receivable	$	11,126,356	21,015,542
Contributions receivable from related parties		19,529,844	21,588,354
	$	30,656,200	42,603,896

(6) Property, Plant, and Equipment

Property, plant, and equipment, at cost, consist of the following at June 30, 2018 and 2017:

		2018	2017
Technical equipment	$	3,901,617	3,735,449
Leasehold improvements		586,801	529,058
Equipment, furniture, and vehicles		467,020	456,775
Computers		1,947,272	1,732,415
Software		1,336,688	1,276,961
		8,239,398	7,730,658
Less accumulated depreciation		(7,089,735)	(6,805,239)
	$	1,149,663	925,419

Depreciation and amortization on property, plant, and equipment totaled $305,244 and $242,035 at June 30, 2018 and 2017, respectively.

(7) Loans and Pledges Payable

(a) Line of Credit

The Opera has a line-of-credit agreement that carries a borrowing limit of $8,000,000 at June 30, 2018 and June 30, 2017, with interest rates ranging up to 5.75%. The line of credit expires on November 30, 2018. Amounts outstanding under this agreement totaled $6,250,000 and $7,000,000 at June 30, 2018 and 2017, respectively.

On November 30, 2018, the bank approved an extension of the line of credit through November 30, 2019. Under the extension, the borrowing has a variable interest rate of LIBOR plus 3% and a limit of $8,000,000. In addition, the loan contains certain financial covenants that are consistent with the terms of the previous line of credit and include an overall outstanding debt limit for the Opera. At December 19, 2018, the outstanding balance on the line of credit is $8,000,000.

Interest incurred on these borrowings totaled $267,499 and $283,438 for the fiscal years ended June 30, 2018 and 2017, respectively.

(b) Loans Payable to Related Parties

(i) Loans from Board Members

The Opera received interest-free loans from board members totaling $9,360,000 during the fiscal year ended June 30, 2018, all of which was repaid during the year. Of the amounts payable to board members at June 30, 2018, $83,333 were payable to related parties that had outstanding pledges totaling $725,000.

The Opera received interest-free loans from board members totaling $718,000 during the fiscal year ended June 30, 2017. During the fiscal year ended June 30, 2017, loans of $612,031 were subsequently forgiven. At June 30, 2017, the total amounts payable to board members is $966,667, $350,000 of which is payable on demand. Of the amount payable to board members at June 30, 2017, $916,667 was payable to related parties that had outstanding pledges totaling $5,208,583.

(ii) Loans from the California Community Foundation

In 2016, 2015, and 2014, the Opera entered into three loan agreements with the California Community Foundation (CCF). The loans were provided to the Opera through a donor advised fund maintained at CCF. The donor advised fund from which the loans were obtained was at the direction of a board member of the Opera. The first loan was entered into on September 9, 2014, for $4,000,000. The loan is due and payable in three installments at an annual interest rate of 4% or 10% in the event of default. The loan is payable as follows: $1,000,000 on September 15, 2016; $1,000,000 on September 15, 2017; and $2,000,000 plus any remaining accrued interest on September 15, 2018. On September 24, 2018, the loan agreement was amended to extend the September 15, 2018 payment date to $500,000 due on January 31, 2019 and $1,500,000 due on March 30, 2019. The balance at June 30, 2018 on the first loan is $2,000,000.

The second loan was entered in to on November 24, 2015, for $2,000,000. The loan is due and payable in two installments at an annual interest rate of 4% or 10% in the event of default. The loan is payable as follows: $1,000,000 on September 15, 2016 and $1,000,000 on September 15,

2017. On July 31, 2017, the loan agreement was amended to extend the September 15, 2017 payment date to March 30, 2018. On March 23, 2018, the loan agreement was amended to extend the March 30, 2018 payment date to March 30, 2019. The balance at June 30, 2018 on the second loan is $1,000,000.

The third loan was entered in to on September 20, 2016, for $1,000,000. The loan is due and payable in one installment on March 20, 2018, at an annual interest rate of 4% or 10% in the event of default. On March 23, 2018, the loan agreement was amended to extend the March 20, 2018 payment date to March 30, 2019. The balance at June 30, 2018 on the third loan is $1,000,000.

Interest incurred on these borrowings totaled $190,000 and $210,000 for the fiscal years ended June 30, 2018 and 2017, respectively.

(iii) Note Payable to the Music Center Foundation

On December 21, 2015, the Opera executed a promissory note with the Music Center Foundation for $1,631,522 in exchange for the early satisfaction of a pledge of a beneficial interest made to the Music Center Foundation by a board member of the Opera on behalf of the Opera. The Opera received $671,522 in cash and $960,000 in loan forgiveness from the donor as part of this exchange program. The note was due and payable upon the death of the survivor of the original instrument. The note had an interest at a rate of 6.31% that may have been added to the principal and/or paid.

As discussed in footnote 2(l), on November 18, 2016 the donor of a permanently restricted endowment gift of $5,000,000 instructed the Opera to release the gift and accumulated earnings from restriction in order to refund the outstanding balance of advance distributions as well as the balance of this note payable. At June 30, 2018 and 2017, there was no note payable outstanding to the Music Center Foundation.

(iv) Loan payment schedule

Based on the terms of the loans with board members and CCF, all amounts outstanding at June 30, 2018, are due during fiscal year 2019. Accordingly, during fiscal year 2019, the Opera anticipates making payments of $116,667 and $4,000,000 on the loans from board members and CCF, respectively.

(8) Commitments

(a) Costume Shop

The Opera had two noncancelable operating leases for its costume shop operations in the fiscal years ended June 30, 2018 and 2017.

A lease for the costume shop facility commenced on May 1, 2015 for a period of 10 years, and expires on April 30, 2025. The lease includes scheduled rent escalations over the term of the lease.

A lease for a costume shop storage facility commenced on May 1, 2015 for a period of five years and one month and expires on May 31, 2020. The lease includes scheduled rent escalations over the term of the lease.

The Opera recognizes rent expense on a straight-line basis for shop facilities. Total rent expense (including common area charges of $53,754 and $56,475) was $568,201 and $570,923 for the fiscal years ended June 30, 2018 and 2017, respectively. Minimum lease payments for both costume shop facilities are as follows:

Fiscal years:		
2018–2019	$	507,556
2019–2020		517,913
2020–2021		479,892
2021–2022		494,309
2022–2023		509,218
Thereafter		972,255
	$	3,481,144

(b) Performing Arts Center of Los Angeles

The Opera also leases performance space and office facilities from the Performing Arts Center of Los Angeles County (PACLAC) at the Dorothy Chandler Pavilion (the Pavilion). The Opera entered into a four-year lease agreement with the County effective July 1, 2006 that ended on July 1, 2010. Upon termination of the lease agreement the term automatically extends for successive one-year periods each July 1st provided that the Opera is not then in default of any of the lease provisions.

Total rent paid during the fiscal years ended June 30, 2018 and 2017 totaled $990,557 and $969,766, respectively. Total annual rent under the lease agreement is calculated by subtracting the estimated operations receipts of the Pavilion from the estimated operations cost of the Pavilion and multiplying the result by the Opera’s estimated rental share, which approximates the facility usage. In addition, the Opera transmitted Facility Fees to PACLAC, on a per performance charge on ticket sales under the terms of the lease, of $307,500 and $317,902, during the fiscal years ended June 30, 2018 and 2017, respectively.

(c) Artistic, Director and Production Contracts

In connection with future opera productions, the Opera has entered into various artist, director, and production contracts at June 30, 2018. Such commitments are to be paid as follows as of June 30, 2018:

Fiscal years:		
2018–2019	$	5,217,356
2019–2020		3,246,500
2020–2021		2,915,000
2021–2022		2,915,000
2022–2023		1,110,000
	$	15,403,856

(9) Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes or periods:

	2018	2017
Passage of specified time	$ 18,439,332	25,919,904
Unrealized investment gains	2,184,157	1,596,336
Production underwriting	750,000	1,000,000
Young artist program	1,550,000	2,250,000
	$ 22,923,489	30,766,240

In 2017, a donor authorized the Opera to use a $2,500,000 endowment gift for temporary short-term use. At June 30 2017, the temporary release is reflected as a reduction of permanently restricted net assets and an increase to temporarily restricted net assets. It is included above, at June 30, 2017, as a component of the $25,919,904 restricted for “Passage of specified time.” In January 2018, the funds were transferred to the Opera’s restricted investments held at the Music Center Foundation thereby satisfying the original restriction and is included as a component of permanently restricted net assets at June 30, 2018.

Permanently restricted net assets at June 30, 2018 and 2017 are subject to donor-imposed restrictions that the principal will be maintained in perpetuity. As of July 1, 2008, investment income generated from the endowment funds is temporarily restricted by law until appropriated by the Board to support the general operations of the Opera. The following summarizes the components of permanently restricted net assets at June 30:

	2018	2017
Beneficial interest in perpetual trust	$ 15,620,111	14,699,909
Beneficial interest in remainder trust	19,170,643	—
Endowment receivables	2,162,615	2,131,260
Endowment corpus	20,353,030	17,636,518
	$ 57,306,399	34,467,687

(10) Endowment

The Opera follows the standards codified in ASC Subtopic 958-205-65, *Endowments for Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures of All Endowment Funds*. ASC Subtopic 958-205-65 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. It also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA.

(a) Interpretation of Relevant Law

The Opera's Board of Directors has interpreted the state of California UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent to explicit donor stipulations to the contrary. As a result of this interpretation, for accounting and financial statement purposes, the Opera classifies as permanently restricted net assets:

(a) The original value of gifts donated to the permanent endowment,

(b) The original value of subsequent gifts to the permanent endowment, and

(c) Accumulations to the permanent endowment made in accordance with the direction of the application donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted fund that is not classified as permanently restricted net assets is classified for accounting and financial statement purposes as temporarily restricted net assets until those amounts are appropriated for expenditure by the Opera in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, The Opera's Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) The general economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the organization

(7) The investment policies of the organization

(b) Endowment Investment and Spending Policies

The Finance Committee of the Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. To satisfy the long-term rate-of-return objectives, the Opera relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). These policies establish asset classes that are deemed suitable for investment of endowment funds, which currently include investments in domestic and international equities, fixed income, alternative strategies, and real assets through the Foundation investment pool.

In order to support the long-term growth of the Opera, the Finance Committee has established a spending rate policy where the endowment shall annually distribute a percentage of the 12-quarter rolling average fair value ending on March 30 of the prior fiscal year. In 2018, the percentage rate used was 5%. For funds with donor-imposed asset allocations or distributions, the distributions conform to the donor's expressed wishes. This spending rate policy is consistent with the Opera's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through net gifts and investment return. Final authorization of the appropriation by the Board occurs when the budget is approved.

All the Opera's endowment net assets for the fiscal years ended June 30, 2018 and 2017, are categorized as permanently restricted in accordance with donor restrictions. The Opera does not have any board-designated endowments as of June 30, 2018 and 2017. Changes in endowment net assets of the Opera for the fiscal years ended June 30, 2018 and 2017, are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets:					
Balance, July 1, 2017	$	(41,930)	1,596,336	17,636,518	19,190,924
Investment return:					
Investment income		—	785,507	—	785,507
Net unrealized and realized gains and losses		41,930	587,821	—	629,751
Total investment return		41,930	1,373,328	—	1,415,258
Contributions		—	—	216,512	216,512
Amounts:					
Appropriated for expenditure		—	(785,507)	—	(785,507)
Repayments		—	—	2,500,000	2,500,000
Total expenditures and repayments		—	(785,507)	2,716,512	1,931,005
Balance, June 30, 2018	$	—	2,184,157	20,353,030	22,537,187

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets:					
Balance, July 1, 2016	$	(769,322)	318,146	17,460,428	17,009,252
Investment return:					
Investment income		—	492,119	—	492,119
Net unrealized and realized gains and losses		727,392	1,322,993	—	2,050,385
Total investment return		727,392	1,815,112	—	2,542,504
Contributions		—	—	5,176,090	5,176,090
Amounts appropriated for expenditure		—	(492,119)	—	(492,119)
Released from restriction		—	(44,803)	(5,000,000)	(5,044,803)
Total expenditures and releases		—	(536,922)	(5,000,000)	(5,536,922)
Balance, June 30, 2017	$	(41,930)	1,596,336	17,636,518	19,190,924

(11) Legal Matters

In the ordinary course of business, the Opera is subject to certain lawsuits and other potential legal actions. In the opinion of management and outside counsel, there are no such matters that will have a material effect on the financial position or changes in net assets of the Opera.

(12) Pension and Retirement Plans

The Opera makes an annual contribution to a 403(b) retirement plan on behalf of all eligible employees. Contributions to the plan are made for nonunion employees who have completed one year of employment, which included 1,000 hours of service. The Opera may make a discretionary contribution equal to 2% of eligible employees' compensation. For the fiscal years ended June 30, 2018 and 2017, the contribution rate was 2%. The vested percentage for each year of service is as follows:

Year(s) of service	Vested percentage
1	20%
2	40
3	60
4	80
5	100

Costs of the plan are accrued and funded on an annual basis. The contribution amounts for the fiscal years ended June 30, 2018 and 2017, totaled $130,277 and $129,230, respectively.

Certain employees of the Opera are covered by union-sponsored, collectively bargained multiemployer pension plans. Contributions to these plans totaled $1,257,654 and $1,265,652 for the fiscal years ended June 30, 2018 and 2017, respectively. Payments to these plans are made and recorded as incurred.

(13) Liquidity

The Opera continues to make progress improving its unrestricted net deficit position, which is reflective of conscious efforts to reduce the accumulated deficit and improve liquidity. In addition to a reliance on advance ticket sales and donor contributions, the Opera has had to rely on donor borrowings as well as their line of credit to maintain a liquid position.

(14) Subsequent Events

The Opera has evaluated subsequent events and transactions for potential recognition or disclosure through December 20, 2018, the date the accompanying financial statements were available to be issued.